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1. Department/CAB working level concur position you propose to take at next meeting as set forth para 3 reftel.

2. Re para 2 reftel, we see no chance that Italian third and fourth freedom route proposal would be accepted here short of a basic re-evaluation of US policy which we personally are convinced would result in negative conclusion. We shall confirm.

3. We do not fully understand your references in para B to Italian belief that USG "will go to some lengths to continue carrier operations beyond May 31," unless you are of the opinion that Italians themselves might take the initiative in restricting or terminating US carrier operations then. On US side it would be legally impossible to restrict or to terminate Alitalia's services before conclusion of a CAB proceeding assuming timely filing.

MICROFILMED BY E/R

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4. We seem to be approaching an impasse on routes at this session without having even touched upon capacity. The question of the usefulness of continuing the ~~discussions~~ discussions on the current basis accordingly presents itself. Request your recommendations on whether our agreeing to specify US cities on US routes would be of substantial importance to the Italians and whether you believe it would be worth our considering seriously. (You will appreciate in any case that the development of a US position on this could not be completed quickly).

5. Since there is now no reasonable expectation that a basic deal will be reached before May 31, request your comments on whether it would be preferable to extend the Agreement for a limited period or permit it to expire. (We assume that Circular 175 authority for extension of up to 120 days will be granted soon). One possibility is 60 day extension as first step which could, under the 120 day authority, later be extended for another 60 days if this seemed desirable. Sixty day period would require Italians to stick to their negotiating chore, and would face them with prospect of spoiled vacation if Agreement not reached by July 31. One detail of this is worth bearing in mind, however. It would seem desirable that the CAB proceeding concerning Alitalia's future be under way during the period. It would accordingly be preferable if Alitalia could have applied for its renewal before the extension were agreed upon,

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since otherwise the need for a renewal would not exist until the end of the period.

6. Unless change in Italian position occurs to alter the present picture (which we do not anticipate) it seems likely that recess after a few more sessions will be unavoidable. Would appreciate your comments on the most desirable posture for us to be in should this prove to be the case. At present we are concerned that a recess would see us in little better position to make fundamental decisions on how to break the deadlock than we were before this session began. Routes are stalemated and we have only the haziest idea of what the Italian position on principles will be. We fully appreciate the situation you face in the total Italian unwillingness to discuss principles before a route deal is reached. Would it perhaps be tactically desirable to insist on a discussion of principles, and to propose a recess if the Italians flatly refuse?

7. In the event that a recess becomes desirable or necessary, we would appreciate your recommendation on whether date and place of resumption should be fixed or left open. END

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